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CARDINAL HEALTH INC  
Form 10-K405  
August 24, 2001

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-11373

CARDINAL HEALTH, INC.  
(Exact name of Registrant as specified in its charter)

OHIO 31-0958666  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

7000 CARDINAL PLACE, DUBLIN, OHIO 43017  
(Address of principal executive offices) (Zip Code)

(614) 757-5000  
Registrant's telephone number, including area code

Securities Registered Pursuant to Section 12(b) of the Act:

COMMON SHARES (WITHOUT PAR VALUE) NEW YORK STOCK EXCHANGE  
(Title of Class) (Name of each exchange on which registered)

Securities Registered Pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the Registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
Registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes X No  
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Indicate by check mark if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K is not contained herein, and will not be contained, to the  
best of Registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this  
Form 10-K.

The aggregate market value of voting stock held by non-affiliates of the

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Registrant as of August 17, 2001 was approximately \$32,241,458,796.  
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The number of Registrant's Common Shares outstanding as of August 17, 2001, was as follows: Common shares, without par value: 449,444,140.  
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## DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Definitive Proxy Statement to be filed for its 2001 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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IMPORTANT INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Portions of this Annual Report on Form 10-K (including information incorporated by reference) include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe", "expect", "anticipate", "project", and similar expressions, among others, identify "forward looking statements", which speak only as of the date the statement was made. Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to materially differ from those projected, anticipated or implied. The most significant of such risks, uncertainties and other factors are described in this Form 10-K and in Exhibit 99.01 to this Form 10-K. Except to the limited extent required by applicable law, the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I

ITEM 1: BUSINESS

GENERAL

Cardinal Health, Inc., an Ohio corporation formed in 1979, is a holding company conducting business through a number of separate operating subsidiaries. The Company is a leading provider of products and services to healthcare providers and manufacturers, helping them improve the efficiency and quality of healthcare. As used in this report, the terms the "Registrant" and the "Company" refer to Cardinal Health, Inc. and its subsidiaries, unless the context requires otherwise. Except as otherwise specified, information in this report is provided as of June 30, 2001.

BUSINESS SEGMENTS

The Company has four reporting segments. They are: Pharmaceutical Distribution and Provider Services, Medical-Surgical Products and Services, Pharmaceutical Technologies and Services, and Automation and Information Services.

PHARMACEUTICAL DISTRIBUTION AND PROVIDER SERVICES

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Through its Pharmaceutical Distribution and Provider Services segment, the Company distributes a broad line of pharmaceutical and other healthcare products and provides pharmacy management and related consulting services to hospital, retail and alternate-site pharmacies. Cardinal Distribution, the Company's pharmaceutical distribution business, is one of the country's leading wholesale distributors of pharmaceutical and related healthcare products to independent and chain drugstores, hospitals, alternate care centers and the pharmacy departments of supermarkets and mass merchandisers located throughout the continental United States. As a full-service wholesale distributor, Cardinal Distribution complements its distribution activities by offering a broad range of value-added support services to assist the Company's customers and suppliers in maintaining and improving their sales volumes. These support services include online procurement, fulfillment and information provided through cardinal.com, computerized order entry and order confirmation systems, generic sourcing programs, product movement and management reports, consultation on store operations and merchandising, and customer training. The Company's proprietary software systems feature customized databases specially designed to help its distribution customers order more efficiently, contain costs, and monitor their purchases.

The Company also operates several specialty healthcare distribution businesses which offer value-added services to the Company's customers and suppliers while providing the Company with additional opportunities for growth and profitability. For example, the Company operates through its subsidiary National PharmPak Services, Inc. ("NPPS"), a pharmaceutical repackaging and distribution program for both independent and chain drugstore customers. In addition, the Company through National Specialty Services, Inc. ("NSS"), serves as a distributor of therapeutic plasma products, oncology products and other specialty pharmaceuticals to hospitals, clinics and other managed-care facilities on a nationwide basis through the utilization of telemarketing and direct mail programs. The Company also operates, through CORD Logistics, Inc. ("CORD"), a third party logistics company that distributes and tracks products for pharmaceutical and biotechnology manufacturers.

Also within this segment, the Company, through various operating companies provides services to healthcare providers through integrated pharmacy management, consulting, temporary staffing and related services, and operates Medicine Shoppe International, Inc. ("Medicine Shoppe"), a franchisor of apothecary-style retail pharmacies. The Company, through Central Pharmacy Services, Inc. ("Central Pharmacy"), operates centralized nuclear pharmacies that prepare and deliver radiopharmaceuticals for use in nuclear imaging procedures in hospitals and clinics.

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### MEDICAL-SURGICAL PRODUCTS AND SERVICES

Allegiance Corporation ("Allegiance"), a subsidiary, is a provider of non-pharmaceutical healthcare products and cost-saving services for hospitals and other healthcare providers. Allegiance offers a broad range of medical and laboratory products, representing more than 2,700 suppliers in addition to its own line of surgical and respiratory therapy products. It also manufactures sterile and non-sterile procedure kits, single-use surgical drapes, gowns and apparel, medical and surgical gloves, fluid suction and collection systems, respiratory therapy products, surgical instruments, instrument reprocessing products, special procedure products and other products. Allegiance assists its customers in reducing costs while improving the quality of patient care in a variety of ways, including online procurement, fulfillment and information provided through cardinal.com, supply-chain management, instrument repair and

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other professional consulting services.

### PHARMACEUTICAL TECHNOLOGIES AND SERVICES

Through its Pharmaceutical Technologies and Services segment, the Company provides services to the pharmaceutical manufacturing industry through a broad spectrum of complementary services. The Company's R.P. Scherer Corporation ("Scherer") subsidiary provides manufacturers with unique drug delivery systems and related manufacturing capabilities. The Company's PCI Services, Inc. ("PCI") subsidiary is a leading provider of diversified custom packaging services both in the United States and Europe. The Company's Automatic Liquid Packaging, Inc. ("ALP") subsidiary is a leading provider of contract manufacturing and packaging of sterile liquid pharmaceuticals and other healthcare products in topical, oral, inhaled and ophthalmic formulations. The Company also operates a separate contract sales organization, which assists healthcare companies in launching and marketing products by providing strategic planning, product management, vendor evaluation and related services.

### AUTOMATION AND INFORMATION SERVICES

The Company, through its Automation and Information Services segment, operates businesses focusing on meeting customer needs through unique and proprietary automation and information products and services, including Pyxis Corporation ("Pyxis"), which develops, manufactures, leases, sells and services point-of-use systems which automate the distribution and management of medications and supplies in hospitals and other healthcare facilities and Vistant Corporation ("Vistant"), which markets point of use supply systems in the non-healthcare market. This segment also includes a subsidiary which provides information systems that analyze clinical outcomes and clinical pharmaceutical utilization information.

### ACQUISITIONS

Over the last five years, the Company has completed the following business combinations. On May 7, 1996, the Company completed a merger transaction with Pyxis, a San Diego, California-based developer, manufacturer, marketer and servicer of unique point-of-use systems which automate the distribution, management and control of medications and supplies in hospitals and other healthcare facilities. The Company issued approximately 50.9 million Common Shares(1) to Pyxis shareholders and Pyxis' outstanding stock options were converted into options to purchase approximately 5.2 million Common Shares. On October 11, 1996, the Company completed a merger transaction with PCI, a Philadelphia, Pennsylvania-based provider of diversified packaging services to the pharmaceutical industry in the United States and abroad. The Company issued approximately 7.0 million Common Shares to PCI shareholders and PCI's outstanding stock options were converted into options to purchase approximately 0.5 million Common Shares. On March 18, 1997, the Company completed a merger transaction with Owen, a Houston, Texas-based provider of pharmacy management and information services to hospitals. The Company issued approximately 17.4 million Common Shares to Owen shareholders and Owen's outstanding stock options were converted into options to purchase approximately 1.6 million Common Shares. On February 18, 1998, the Company completed a merger transaction with MediQual Systems, Inc. ("MediQual"), a Westborough, Massachusetts-based supplier of clinical information management systems and services to the healthcare industry. The Company issued approximately 1.3 million Common Shares to MediQual shareholders and MediQual's outstanding stock options were converted into options to purchase approximately 0.1 million Common Shares of the Company. On August 7, 1998, the Company completed a merger transaction with Scherer, a New Jersey-based international developer and manufacturer of drug delivery systems. The Company issued approximately 51.3 million Common Shares to Scherer stockholders and Scherer's outstanding stock options were converted into options to purchase approximately 5.3 million Common Shares. On February 3, 1999, the

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Company completed a merger transaction with Allegiance, a McGaw Park, Illinois-based distributor and manufacturer of medical, surgical and laboratory products and a provider of cost-saving services. The Company issued approximately 106.1 million Common Shares to Allegiance stockholders and Allegiance's outstanding stock options were

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(1) All share references in this paragraph are adjusted to reflect all stock splits and stock dividends effected since the time of the applicable acquisition.

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converted into options to purchase approximately 15.5 million Common Shares. On September 10, 1999 the Company completed a merger transaction with ALP, a Woodstock, Illinois-based custom manufacturer of sterile liquid pharmaceuticals and other healthcare products. The Company issued approximately 8.7 million Common Shares to ALP stockholders. On August 16, 2000, the Company completed the purchase of Bergen Brunswig Medical Corporation ("BBMC") for approximately \$180 million, subject to post-closing adjustments. BBMC distributes medical, surgical and laboratory supplies to doctors' offices, long-term care and nursing centers, hospitals and other providers of care. On February 14, 2001, the Company completed a merger transaction with Bindley Western Industries, Inc. ("Bindley"), an Indianapolis, Indiana-based wholesale distributor of pharmaceuticals and provider of nuclear pharmacy services. The Company issued approximately 23.1 million Common Shares to Bindley stockholders and Bindley's outstanding stock options were converted into options to purchase approximately 5.1 million Common Shares. The Company has also completed a number of smaller acquisition transactions (asset purchases, stock purchases and mergers) during the last five years, including transactions involving MedSurg Industries, Inc.; Rexam Cartons Inc.; International Processing Corporation; American Threshold Industries, Inc., and SP Pharmaceuticals, L.L.C.

The Company continually evaluates possible candidates for merger or acquisition and intends to continue to seek opportunities to expand its healthcare operations and services across all reporting industry segments. For additional information concerning the transactions described above, see Notes 1 and 2 of "Notes to Consolidated Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### CUSTOMERS AND SUPPLIERS

The Company's largest retail distribution customer in its Pharmaceutical Distribution and Provider Services segment accounted for approximately 12% of the Company's operating revenues (by dollar volume) for fiscal year 2001. This segment could be adversely affected if the business of this customer was lost. The two largest retail bulk distribution customers in the Pharmaceutical Distribution and Provider Services segment accounted for approximately 46% and 22% of all bulk deliveries. Due to the lack of margin generated through bulk deliveries, fluctuations in their purchases would have no significant impact on the segment's earnings. The members of the two largest group purchasing organizations (each, a "GPO") having business arrangements with the Company accounted for approximately 10.0% and 9.7%, respectively, of the Company's operating revenues (by dollar volume) in fiscal 2001 through the Company's Pharmaceutical Distribution and Provider Services and Medical-Surgical Products and Services segments. Each of these two segments could be adversely affected if the business arrangements with either of such GPO customers were lost, although the loss of the business arrangement with either such GPO would not necessarily

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mean the loss of sales from all members of the GPO.

During fiscal year 2001, the Company renewed and expanded its pharmaceutical distribution relationship with CVS, one of the largest retail pharmacy chains in the United States, by executing a five-year wholesale supply agreement with CVS. The agreement represents a significant expansion of the Company's bulk deliveries and direct-to-store distribution business with CVS.

The Company obtains its products from many different suppliers, the largest of which accounted for approximately 5.1% (by dollar volume) of its operating revenue in fiscal 2001. The Company's five largest suppliers accounted for approximately 22% (by dollar volume) of its operating revenue during fiscal 2001 and the Company's relationships with its suppliers are generally very good. The Company's arrangements with its pharmaceutical suppliers typically may be canceled by either the Company or the supplier upon 30 to 90 days prior notice, although many of these arrangements are not governed by formal agreements. The loss of certain suppliers could adversely affect the Company's business if alternative sources of supply were unavailable.

While certain of the Company's operations may show quarterly fluctuations, the Company does not consider its business to be seasonal in nature on a consolidated basis.

### COMPETITION

The markets in which the Company operates are highly competitive. In the pharmaceutical wholesale distribution business, the Company competes directly with numerous other national and regional wholesale distributors, direct selling manufacturers, self-warehousing chains, and specialty distributors on the basis of price, breadth of product lines, marketing programs, and support services. The Company's pharmaceutical wholesale distribution operations have narrow profit margins and, accordingly, the Company's earnings depend significantly on its ability to distribute a large volume and variety of products efficiently and to provide quality support services. Several smaller franchisors compete with Medicine Shoppe in the franchising of pharmacies, with competition being based primarily upon price, benefits offered to both the pharmacist and the customer, access to third party programs, and the reputation of the franchise. Medicine Shoppe also needs to be competitive with a pharmacist's ongoing option to remain self-employed at his or her current position rather than becoming a franchisee. Medicine Shoppe's Managed Pharmacy Benefits subsidiary also faces competition from other pharmacy benefit management companies. With its Owen subsidiary, the

Company competes with both national and regional hospital pharmacy management firms, and self-managed hospitals and hospital systems on the basis of price and services offered, its established base of business, the effective use of information systems, the development of clinical programs, and the quality of the services it provides to its customers. Through Scherer, the Company's drug delivery technologies compete with a growing number of new drug delivery technologies and with continued refinements to existing delivery technologies of both pharmaceutical companies and companies formed to develop new technologies. Through PCI and ALP, the Company competes with companies that provide many types of packaging services and those that provide one or a few types of packaging services, based primarily upon quality, variety of available packaging services, customer service, responsiveness and price. As a marketer of automated pharmaceutical dispensing and supply systems through Pyxis, the Company competes

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based upon price, its installed base of systems, relationships with customers, customer service and support capabilities, patents and other intellectual property, and its ability to interface with customer information systems. Actual and potential competitors to the Pyxis system include both existing domestic and foreign companies, as well as emerging companies that supply products for specialized markets and other outside service providers. Through Allegiance, the Company has substantial competition in all of its non-pharmaceutical healthcare product and service markets, with competition focusing primarily on product performance, service levels and price. Through Central Pharmacy, the Company competes with other nuclear pharmacy service companies and distributors engaged in the preparation and delivery of radiopharmaceuticals for use in nuclear imaging procedures in hospitals and clinics. Such competitors include national and regional operators of radiopharmacies, numerous independent radiopharmacies, and manufacturers and universities that have established their own radiopharmacies.

### EMPLOYEES

As of August 17, 2001, the Company had approximately 48,900 employees in the U.S. and abroad, of which approximately 1,350 are subject to collective bargaining agreements. Overall, the Company considers its employee relations to be generally very good.

### INTELLECTUAL PROPERTY

The Company has applied in the United States and certain foreign countries for registration of a number of trademarks and service marks, certain of which have been registered, and also holds common law rights in various trademarks and service marks. There can be no assurance that the Company will obtain the registrations for trademarks and service marks for which it has applied.

The Company holds patents relating to certain aspects of its automated pharmaceutical dispensing systems, automated medication management systems, medication packaging, medical devices, processes, products, drug delivery systems and sterile liquid packaging. The Company has a number of pending patent applications in the United States and certain foreign countries, and intends to pursue additional patents as appropriate.

The Company also owns certain software, including software used for pharmaceutical purchasing and inventory control, which is copyrighted and subject to the protection of applicable copyright laws.

The Company does not consider any particular patent, trademark, license, franchise or concession to be material to its business. No assurances can be given that any intellectual property rights of the Company will provide meaningful protection against competitive products or otherwise be commercially valuable or that the Company will be successful in obtaining additional patents or enforcing its proprietary rights against others.

### REGULATORY MATTERS

The Company's subsidiaries which distribute prescription pharmaceuticals (including certain controlled substances) or medical devices, manage or own pharmacy operations, engage in or operate retail pharmacies, purchase pharmaceuticals, manage pharmaceuticals, engage in logistics and/or manufacture drug delivery systems or surgical and respiratory care products, are required to register for permits and/or licenses with, and comply with operating and security standards of, the United States Drug Enforcement Administration, the Food and Drug Administration (the "FDA") and various state boards of pharmacy and/or comparable state agencies as well as foreign agencies, depending upon the type of operations and location of product distribution and sale. In addition, certain of the Company's subsidiaries are subject to requirements of the



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Controlled Substances Act and the Prescription Drug Marketing Act of 1987 and similar state laws, which regulate the marketing, purchase, storage and distribution of prescription drugs under prescribed minimum standards. Laws regulating the manufacture and distribution of products also exist in most other countries wherein certain of the Company's subsidiaries conduct business. In addition, the Company's packaging and manufacturing subsidiary operations in the United Kingdom, France, Italy and Germany are subject to local certification requirements, including compliance with good manufacturing practices adopted by the European Community. The Company's Pyxis subsidiary is not currently required to register or submit pre-market notifications to the FDA for its automated pharmaceutical

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dispensing systems. There can be no assurance, however, that FDA policy in this regard will not change.

The Company's franchising operations, through Medicine Shoppe, are subject to Federal Trade Commission regulations, and rules and regulations adopted by certain states, which require franchisors to make certain disclosures to prospective franchisees prior to the sale of franchises. In addition, certain states have adopted laws which regulate the franchisor-franchisee relationship. The most common provisions of such laws establish restrictions on the ability of franchisors to terminate or to refuse to renew franchise agreements. From time to time similar legislation has been proposed or is pending in additional states.

Central Pharmacy operates nuclear pharmacies in a regulated industry which requires licenses or permits from the Federal Nuclear Regulatory Commission, the radiologic health agency and/or department of health of each state in which it operates, and the applicable state board of pharmacy.

Certain of the Company's subsidiaries are subject to federal and state healthcare fraud and abuse, referral and reimbursement laws and regulations with respect to their operations. Certain of the Company's subsidiaries also maintain contracts with the federal government and are subject to certain regulatory requirements relative to government contractors.

Services and products provided by certain of the Company's subsidiaries include access to healthcare data and other drug-related information gathered and assessed for the benefit of healthcare clients. Greater scrutiny is being placed on a federal and state level regarding how such information should be handled and in identifying the appropriate parties to do so. Future changes in regulations and/or legislation such as the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") may affect how some of these information services or products are provided.

The Company is also subject to various federal, state and local laws, regulations and recommendations, both in the United States and abroad, relating to safe working conditions, laboratory and manufacturing practices, and the use, transportation and disposal of hazardous or potentially hazardous substances. The Company's environmental policies mandate compliance with all applicable regulatory requirements concerning environmental quality and contemplate, among other things, appropriate capital expenditures for environmental protection for each of its subsidiaries. In addition, U.S. and international import and export laws and regulations require that the Company abide by certain standards relating to the importation and exportation of finished goods, raw materials and supplies.

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### RESEARCH AND DEVELOPMENT

For information on Company-sponsored research and development costs in the last three fiscal years, see Note 1 of "Notes to Consolidated Financial Statements".

### REVENUE AND LONG-LIVED ASSETS BY GEOGRAPHIC AREA

For information on revenue and long-lived assets by geographic area, see Note 12 of "Notes to Consolidated Financial Statements".

### ITEM 2: PROPERTIES

In the United States, the Company has 50 principal pharmaceutical distribution facilities and four specialty distribution facilities utilized by the Pharmaceutical Distribution and Provider Services segment. The Company also has 12 PCI packaging facilities (five of which are located in Puerto Rico), nine Scherer manufacturing facilities and one ALP manufacturing facility utilized by its Pharmaceutical Technologies and Services segment. In addition, the Company has one Pyxis assembly operation in its Automation and Information Services segment. The Company also has 78 medical-surgical distribution facilities and 24 medical-surgical manufacturing facilities utilized by the Medical-Surgical Products and Services segment. The Company's domestic facilities are located in a total of 41 states and Puerto Rico.

Internationally, the Company owns, leases or operates through its Pharmaceutical Technologies and Services segment, 17 Scherer manufacturing facilities which are located in the United Kingdom, France, Germany, Italy, Australia, Japan, Argentina, Brazil and Canada. Within this segment, the Company also has four PCI packaging facilities which are located in the United Kingdom and Germany. The Company owns, leases or operates through its Medical-Surgical Products and Services segment 13 medical-surgical distribution facilities located in Canada and the Netherlands, and 20 medical-surgical manufacturing facilities located in the Netherlands, Malaysia, Thailand, Malta, Mexico, the Dominican Republic, Germany and France. The Company's international facilities are located in a total of 19 countries.

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The Company owns 113 of the domestic and international facilities described above, and the balance are leased. The Company's principal executive offices are located in a leased four-story building located at 7000 Cardinal Place in Dublin, Ohio.

The Company considers its operating properties to be in satisfactory condition and adequate to meet its present needs. However, the Company continuously evaluates its operating properties and may make further additions, improvements, and consolidations as it continues to seek opportunities to expand its role as a provider of services to the healthcare industry.

For certain financial information regarding the Company's facilities, see Notes 3 and 8 of "Notes to Consolidated Financial Statements".

### ITEM 3: LEGAL PROCEEDINGS

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On September 30, 1996, Baxter International Inc. ("Baxter") and its subsidiaries transferred to Allegiance and its subsidiaries their U.S. Healthcare distribution business, surgical and respiratory therapy business and healthcare cost-saving business, as well as certain foreign operations (the "Allegiance Business") in connection with a spin-off of the Allegiance Business by Baxter. In connection with this spin-off, Allegiance, which was acquired by the Company on February 3, 1999, agreed to indemnify Baxter Healthcare Corporation ("BHC") from certain claims related to the Allegiance Business, including certain claims of alleged personal injuries as a result of exposure to natural rubber latex gloves. Allegiance will be defending and indemnifying BHC, as contemplated by the agreements between Baxter and Allegiance, for all expenses and potential liabilities associated with claims pertaining to the litigation assumed by Allegiance. As of June 30, 2001, there were approximately 610 lawsuits involving BHC and/or Allegiance containing allegations of sensitization to natural rubber latex products. Some of the cases are now proceeding to trial. Because of the increase in claims filed and the ongoing defense costs that will be incurred, the Company believes it is probable that it will continue to incur significant expenses related to the resolution of cases involving natural rubber latex gloves. AEIA, one of the insurers for the latex glove litigation, has advised the Company of its intent to resolve through arbitration the extent of its obligation to reimburse the Company for certain defense costs and loss expenses incurred in connection with the litigation. The Company believes a substantial portion of any liability will be covered by insurance, subject to self-insurance retentions, exclusions, conditions, coverage gaps, policy limits and insurer solvency.

The Company also becomes involved from time-to-time in other litigation incidental to its business, including, without limitation, inclusion of certain of its subsidiaries as a potentially responsible party for environmental clean-up costs. Although the ultimate resolution of the litigation referenced herein cannot be forecast with certainty, the Company intends to vigorously defend itself and does not currently believe that the outcome of any pending litigation will have a material adverse effect on the Company's consolidated financial statements.

#### ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None during the fiscal quarter ended June 30, 2001.

#### PART II

#### ITEM 5: MARKET FOR THE REGISTRANT'S COMMON SHARES AND RELATED SHAREHOLDER

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### MATTERS

The Common Shares are quoted on the New York Stock Exchange under the symbol "CAH." The following table reflects the range of the reported high and low last sale prices of the Common Shares as reported on the New York Stock Exchange Composite Tape and the per share dividends declared thereon for the fiscal years ended June 30, 2001 and 2000. The information in the table has been adjusted to reflect retroactively all prior stock splits.

	HIGH	LOW	DIVIDENDS
	-----	-----	-----
Fiscal 2000:			
Quarter Ended			
September 30, 1999	\$ 46.63	\$ 34.67	\$ 0.0167
December 31, 1999	37.58	25.00	0.0167
March 31, 2000	39.58	24.79	0.0167
June 30, 2000	49.33	30.58	0.0200
Fiscal 2001:			
Quarter Ended			
September 30, 2000	\$ 63.38	\$ 45.27	\$ 0.0200
December 31, 2000	69.25	59.04	0.0200
March 31, 2001	68.35	58.67	0.0200
June 30, 2001	77.00	61.78	0.0250
Through August 17, 2001	\$ 74.93	\$ 67.28	\$ 0.0250

As of August 17, 2001, there were approximately 22,000 shareholders of record of the Common Shares.

The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Company's Board of Directors and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

### ITEM 6: SELECTED FINANCIAL DATA

The following selected consolidated financial data of the Company were prepared giving retroactive effect to the business combinations with PCI on October 11, 1996; Owen on March 18, 1997; MediQual on February 18, 1998; Scherer on August 7, 1998; Allegiance on February 3, 1999; Pacific Surgical Innovations, Inc. ("PSI") on May 21, 1999; ALP on September 10, 1999, and Bindley on February 14, 2001, all of which were accounted for as pooling-of-interests transactions. Additional disclosure related to these transactions is included in Note 2 of "Notes to Consolidated Financial Statements". The consolidated financial data includes all purchase transactions that occurred during these periods.

For the fiscal year ended June 30, 1997, the information presented is derived from the consolidated financial statements which combine Cardinal's financial results for the fiscal year ended June 30, 1997 with PCI's financial results for the nine months ended June 30, 1997, Owen's financial results for the period of June 1, 1996 to June 30, 1997 (excluding Owen's financial results for December 1996 in order to change Owen's November 30 fiscal year end to June 30), MediQual's financial results for the fiscal year ended December 31, 1996, Scherer's financial results for the fiscal year ended March 31, 1997,

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Allegiance's financial results for the fiscal year ended December 31, 1997, PSI's financial results for the fiscal year ended September 30, 1997, and Bindley's financial results for the fiscal year ended December 31, 1996.

For the fiscal year ended June 30, 1998, the information presented is derived from the consolidated financial statements which combine Cardinal's financial results for the fiscal year ended June 30, 1998 with Scherer's financial results for the fiscal year ended March 31, 1998, PSI's financial results for the fiscal year ended September 30, 1998 and Bindley's financial results for the fiscal year ended December 31, 1997.

For the fiscal year ended June 30, 1999, the information presented is derived from the consolidated financial statements which

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combine Cardinal's financial results for the fiscal year ended June 30, 1999 with Bindley's financial results for the fiscal year ended December 31, 1998.

For the fiscal year ended June 30, 2000, the information presented is derived from the consolidated financial statements which combine Cardinal's financial results for the fiscal year ended June 30, 2000 with Bindley's financial results for the fiscal year ended December 31, 1999.

The selected consolidated financial data below should be read in conjunction with the Company's consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### CARDINAL HEALTH, INC. AND SUBSIDIARIES SELECTED CONSOLIDATED FINANCIAL DATA (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

At or For the Fiscal Year Ended  
June 30, (1)

	2001	2000	1999 (2)	1998 (2)
<b>EARNINGS DATA:</b>				
<b>Revenue:</b>				
Operating revenue	\$ 38,660.1	\$ 30,257.8	\$ 25,682.5	\$ 20,844.
Bulk deliveries to Customer warehouses	9,287.5	8,092.1	7,050.4	7,541.
<b>Total revenue</b>	<b>\$ 47,947.6</b>	<b>\$ 38,349.9</b>	<b>\$ 32,732.9</b>	<b>\$ 28,385.</b>
<b>Net earnings</b>	<b>\$ 857.4</b>	<b>\$ 717.8</b>	<b>\$ 499.3</b>	<b>\$ 474.</b>
<b>Earnings per Common Share: (3)</b>				
Basic	\$ 1.93	\$ 1.64	\$ 1.14	\$ 1.1
Diluted	\$ 1.88	\$ 1.60	\$ 1.12	\$ 1.0

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Cash dividends declared					
Per Common Share (3) (4)	\$ 0.085	\$ 0.070	\$ 0.067	\$ 0.04	
BALANCE SHEET DATA:					
Total assets	\$ 14,642.4	\$ 12,024.1	\$ 9,682.7	\$ 8,876.	
Long-term obligations, less current portion	\$ 1,871.0	\$ 1,524.5	\$ 1,224.5	\$ 1,362.	
Shareholders' equity	\$ 5,437.1	\$ 4,400.4	\$ 3,894.6	\$ 3,389.	

- (1) Amounts reflect business combinations and the impact of merger-related costs and other special charges in all periods presented. See Note 2 of "Notes to Consolidated Financial Statements" for a further discussion of merger-related costs and other special charges affecting fiscal 2001, 2000, and 1999. Fiscal 1998 amounts reflect the impact of merger-related charges and other special charges of \$57.8 million (\$19.5 million, net of tax). Fiscal 1997 amounts reflect the impact of merger-related charges of \$50.9 million (\$36.6 million, net of tax).
- (2) Amounts above do not reflect the impact of pro forma adjustments related to ALP taxes (see Notes 1 and 2 of "Notes to Consolidated Financial Statements"). For the fiscal years ended June 30, 1999 and 1998, the pro forma adjustment for ALP taxes would have reduced net earnings by \$9.3 million and \$4.6 million, respectively. The pro forma adjustment would have decreased diluted earnings per Common Share by \$0.02 to \$1.10 for fiscal year 1999 and by \$0.01 to \$1.06 for fiscal year 1998.
- (3) Net earnings and cash dividends per Common Share have been adjusted to retroactively reflect all stock dividends and stock splits through June 30, 2001.
- (4) Cash dividends per Common Share exclude dividends paid by all entities with which the Company has merged.

### ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis has been prepared giving retroactive effect to the pooling-of-interests business combinations with Scherer on August 7, 1998, Allegiance on February 3, 1999, PSI on May 21, 1999, ALP on September 10, 1999 and Bindley on February 14, 2001.

The discussion and analysis presented below refer to and should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this Form 10-K. Portions of this management's discussion and analysis presented below include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe", "expect", "anticipate", "project", and similar expressions, among others, identify "forward-looking statements", which speak only as of the date

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the statement was made. Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to materially differ from those projected, anticipated or implied. The most significant of such risks, uncertainties and other factors are described in this Form 10-K and in Exhibit 99.01 to this Form 10-K. Except to the limited extent required by applicable law, the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### GENERAL

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 The Company operates within four operating business segments: Pharmaceutical Distribution and Provider Services, Medical-Surgical Products and Services, Pharmaceutical Technologies and Services, and Automation and Information Services. See Note 12 of "Notes to Consolidated Financial Statements" for a description of these segments.

### RESULTS OF OPERATIONS

#### OPERATING REVENUE

Years ended June 30	Growth (1)		Percent Operating	
	2001	2000	2001	2000
Pharmaceutical Distribution and Provider Services	31%	22%	81%	7
Medical-Surgical Products and Services	19%	5%	15%	1
Pharmaceutical Technologies and Services	9%	15%	3%	
Automation and Information Services	17%	(2)%	1%	
Total Company	28%	18%	100%	10

(1) The growth rate applies to the respective fiscal year as compared to the prior fiscal year.

Total operating revenue increased 28% during fiscal 2001 as compared to fiscal 2000. The increase in operating revenue resulted from a higher sales volume to existing customers; pharmaceutical price increases; acquisitions; and addition of new customers, some of which was a result of cross-selling opportunities among the various businesses. For further discussion of acquisitions, see Note 2 of "Notes to Consolidated Financial Statements".

The increase in operating revenue of 18% for fiscal 2000 over fiscal 1999 resulted from a higher sales volume to existing customers; pharmaceutical price increases; and addition of new customers, some of which was a result of cross-selling opportunities among the various businesses.

The Pharmaceutical Distribution and Provider Services segment's operating revenue growth in fiscal 2001 resulted from strong sales to all customer segments, especially chain pharmacies; an increase in sales volume to existing customers; and the addition of new contracts. The increase in this segment's operating revenue in fiscal 2000 resulted from strong sales to chain pharmacies; strong sales within the segment's specialty distribution businesses; and the addition of several new contracts involving multiple operating business segments. Offsetting the growth in fiscal 2000 was the impact of pharmacy management business continuing to exit unprofitable accounts, an initiative that began in late fiscal 1999.

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The Medical-Surgical Products and Services segment's operating revenue growth in fiscal 2001 primarily reflects an increase in sales of distributed products. The Company acquired Bergen Brunswig Medical Corporation ("BBMC") in the first quarter of fiscal 2001 and accounted for the acquisition as a purchase transaction. As prior year revenues for this segment were not restated, the inclusion of BBMC revenues for fiscal 2001 significantly increased revenues over the prior year for distributed products. The increase in this segment's operating revenue in fiscal 2000 resulted from an increase in sales across virtually all product lines and an increase in international demand over fiscal 1999.

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The Pharmaceutical Technologies and Services segment's growth in fiscal 2001 resulted from higher sales volume particularly involving the Zydis(R) rapid-dissolving drug-delivery technology and the sterile-liquid pharmaceutical products. Slowing sales in the protease inhibitor and health and nutritional product lines partially offset the growth in this segment. The increase in this segment's operating revenue in fiscal 2000 was primarily the result of strong sales volume in the pharmaceutical-packaging business, liquid-fill contract manufacturing business, drug delivery system business in North America, and within the health and nutrition market. Cross selling opportunities among the businesses within this segment contributed to the overall growth.

The Automation and Information Services segment's operating revenue growth in fiscal 2001 primarily reflects sales of new products, such as the MedSTATION(R) SN, which was introduced in late fiscal 2000 and further penetration of the market with existing automation products. The slight decrease in this segment's operating revenue growth in fiscal 2000 was primarily due to timing of customers' purchases related to the Year 2000 date change.

**BULK DELIVERIES TO CUSTOMER WAREHOUSES.** The Company reports bulk deliveries made to customers' warehouses as revenue. These sales involve the Company acting as an intermediary in the ordering and subsequent delivery of pharmaceutical products. Fluctuations in bulk deliveries result largely from circumstances that the Company cannot control, including consolidation within the customers' industries, decisions by customers to either begin or discontinue warehousing activities, and changes in policies by manufacturers related to selling directly to customers. Due to the lack of margin generated through bulk deliveries, fluctuations in their amount have no significant impact on the Company's earnings.

### GROSS MARGIN

Years ended June 30	(as a percentage of operating revenue)		
	2001	2000	1999
Pharmaceutical Distribution and Provider Services	5.2%	5.5%	5.7%
Medical-Surgical Products and Services	22.1%	23.2%	23.4%
Pharmaceutical Technologies and Services	33.3%	33.1%	33.0%
Automation and Information Services	68.6%	69.2%	68.5%
Total Company	9.3%	10.2%	11.0%



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The overall gross margin as a percentage of operating revenue decreased in fiscal 2001 and fiscal 2000. This decrease resulted from a greater mix of lower margin pharmaceutical distribution operating revenues in fiscal 2001 and fiscal 2000 as compared to the prior years. The Pharmaceutical Distribution and Provider Services segment represented 81% of operating revenues in fiscal 2001, up from 79% and 76% of operating revenues in fiscal 2000 and fiscal 1999, respectively. The decline in the margins in the Medical-Surgical Products and Services and Automation and Information Services segments also contributed to the overall decline in the Company's gross margin in fiscal 2001.

The gross margin as a percentage of operating revenue in the Pharmaceutical Distribution and Provider Services segment decreased in fiscal 2001 and fiscal 2000, primarily due to the impact of lower selling margins. The decline in selling margins is attributed to a highly competitive market and greater mix of high volume customers where a lower cost of distribution and better asset management enabled the Company to offer lower selling margins to its customers. This decrease was partially offset by higher vendor margins from favorable price increases and manufacturer marketing programs.

The gross margin as a percentage of operating revenue in the Medical-Surgical Products and Services segment decreased in fiscal 2001, primarily due to the acquisition of BBMC. This acquisition shifted product mix toward lower margin distributed products. In fiscal 2000, increased pricing pressures in certain self-manufactured product lines, including the exam glove business, as well as a slight shift in revenue growth towards lower margin distributed products contributed to the decrease in gross margin in this segment.

The gross margin as a percentage of operating revenue in the Pharmaceutical Technologies and Services segment increased in fiscal 2001 and fiscal 2000 due to an increase in sales volume in the higher margin liquid fill contract manufacturing and drug delivery system businesses. The drug delivery system business' shift to higher margin pharmaceutical products from lower margin health and nutrition products also contributed to the improvement in gross margin.

The gross margin as a percentage of operating revenue in the Automation and Information Services segment decreased in fiscal 2001, primarily due to changes in its product mix. Price increases during the year and changes in its product mix increased this segment's gross margin as a percentage of revenue in fiscal 2000.

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### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Years ended June 30	(as a percentage of operating revenue)		
	2001	2000	1999
Pharmaceutical Distribution and Provider Services	2.4%	2.7%	3.0%
Medical-Surgical Products and Services	14.6%	15.8%	16.9%
Pharmaceutical Technologies and Services	14.7%	14.5%	15.9%
Automation and Information Services	32.9%	34.9%	34.2%
Total Company	5.2%	5.8%	6.6%

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Selling, general and administrative expenses as a percentage of operating revenue declined in fiscal years 2001 and 2000. This decline reflects economies associated with the Company's revenue growth. Significant productivity gains resulting from continued cost control efforts in all segments and the continuation of consolidation and selective automation of operating facilities contributed to the improvement. In addition, the Company is continuing to take advantage of synergies from recent acquisitions to decrease selling, general and administrative expenses as a percentage of operating revenue. Partially offsetting the improvement in fiscal 2001 was an increase in selling, general and administrative expenses as a percentage of operating revenue for the Pharmaceutical Technologies and Services segment. This change was primarily a result of surplus capacity in the health and nutritional manufacturing facilities for this segment (see discussion in the operating revenue section). Partially offsetting the improvements in fiscal 2000 was an increase in selling, general and administrative expenses as a percentage of operating revenue for the Automation and Information Services segment. This change was primarily a result of a slight decrease in this segment's operating revenue from fiscal 1999 to fiscal 2000.

The selling, general and administrative expenses grew 14% and 3% in fiscal years 2001 and 2000, respectively. The increases are primarily attributed to increases in personnel costs and depreciation expense. The overall increase compares favorably to the 28% and 18% growth in operating revenue for the same periods.

### SPECIAL CHARGES

The following is a summary of the special charges for the fiscal years ended June 30, 2001, 2000 and 1999.

(in millions, except per share amounts)	Fiscal Year Ended June 30,		
	2001	2000	1999
<b>Merger-related costs:</b>			
Direct transaction costs	\$ (20.8)	\$ 1.2	\$ (56.6)
Employee-related costs	(38.3)	(5.0)	(38.8)
ALP transaction bonus	--	(20.3)	--
Exit costs - distribution center consolidation	(15.8)	--	--
Other exit costs	(1.6)	(11.7)	(9.4)
Scherer restructuring costs	(1.6)	(9.6)	(26.7)
Inventory write-offs	--	--	(4.0)
Owen Healthcare, Inc. employee-related costs	--	--	(1.1)
Canceled merger transaction	--	--	3.7
Other integration costs	(40.0)	(19.3)	(13.7)
<b>Total merger-related costs</b>	<b>\$ (118.1)</b>	<b>\$ (64.7)</b>	<b>\$ (146.6)</b>
<b>Other special charges:</b>			
Distribution center closures	\$ (4.4)	\$ --	\$ --
Manufacturing facility closures	(2.2)	--	--
Employee-related costs	(5.2)	--	--
Litigation settlement	5.0	--	--
Priority spin-off	--	--	(18.8)
<b>Total other special charges</b>	<b>\$ (6.8)</b>	<b>\$ --</b>	<b>\$ (18.8)</b>
<b>Total special charges</b>	<b>\$ (124.9)</b>	<b>\$ (64.7)</b>	<b>\$ (165.4)</b>

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Tax effect of special charges	39.6	14.9	33.8
Pro forma ALP taxes	--	--	9.3
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Net effect of special charges	\$ (85.3)	\$ (49.8)	\$ (122.3)
=====			
Net effect on diluted earnings per share	\$ (0.19)	\$ (0.11)	\$ (0.27)
=====			

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Merger-Related Charges. Costs of effecting mergers and subsequently integrating the operations of the various merged companies are recorded as merger-related costs when incurred. The merger-related costs are primarily a result of the merger transactions with Bindley, ALP, Allegiance and Scherer.

During the fiscal years presented in the preceding table, the Company incurred direct transaction costs related to its merger transactions. These expenses primarily include investment banking, legal, accounting and other professional fees associated with the respective merger transactions. In addition, the Company incurred employee-related costs, which consist primarily of severance and transaction/stay bonuses as a result of the Bindley, ALP, Allegiance and Scherer merger transactions. Partially offsetting the transaction and employee-related costs recorded during the fiscal year ended June 30, 2000 was a \$10.3 million credit to adjust the estimated transaction and employee-related costs previously recorded in connection with the Allegiance merger transaction. Actual billing and employee-related costs were less than the amounts originally anticipated, resulting in a reduction of the merger-related costs.

The Company recorded a charge of \$15.8 million during fiscal 2001 associated with the Company's plans to consolidate distribution centers as a result of the Company's merger transaction with Bindley. In connection with such consolidations, the Company has incurred employee-related costs and exit costs related to termination of contracts and lease agreements during the year.

Other exit costs relate primarily to costs associated with lease terminations and moving expenses as a direct result of the merger transactions with ALP, Allegiance and Scherer.

The Company recorded charges of \$1.6 million, \$9.6 million and \$26.7 million during fiscal years 2001, 2000 and 1999, respectively. These charges were business restructuring costs relating to the Company's merger transaction with Scherer. As part of the business restructuring, the Company has closed certain facilities. In connection with such closings, the Company has incurred employee-related costs, asset impairment charges and exit costs related to the termination of contracts and lease agreements.

The Company recorded charges of \$4.0 million in fiscal 1999. This charge related to the write-down of impaired inventory associated with the merger transaction with Owen. Also, during fiscal 1999, the Company recorded charges of \$1.1 million related to severance costs for a restructuring associated with the change in management that resulted from the merger transaction with Owen. Partially offsetting the total merger-related charges for fiscal 1999 was a credit recorded to adjust the estimated transaction and termination costs previously recorded in connection with the canceled merger transaction with

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Bergen Brunswig Corporation. Also, the actual amount billed for services provided by third parties engaged by the Company was less than the estimate, resulting in a reduction of the merger-related costs.

Other integration costs include charges related to integration of the operations of previous merger transactions, primarily the merger transactions with Bindley, ALP, and Allegiance.

Other Special Charges. During fiscal 2001, the Company recorded a special charge of \$5.0 million related to rationalization of certain pharmaceutical distribution centers. Approximately, \$4.4 million related to asset impairments, lease exit costs and duplicate facility costs resulting from the Company's decision to consolidate certain distribution centers and relocate to a more modern distribution center. The remaining amount related to employee severance costs.

In addition, during fiscal 2001, the Company recorded a special charge of \$6.8 million related to the rationalization of certain health and nutritional manufacturing facilities. Approximately, \$2.2 million related to lease exit costs and the remaining amount related to employee severance costs.

During fiscal 2001, Bindley recorded a benefit of approximately \$5.0 million related to a reduction in a litigation settlement accrual, which was previously recorded. The amount of the final settlement was lower than originally anticipated.

During fiscal 1999, Bindley recorded a special charge of \$18.8 million. Approximately \$11.0 million related to a non-cash charge for the acceleration of the amortization of compensation related to restricted stock grants in connection with the spin-off of Priority Healthcare Corporation ("Priority") (see Note 1 of the "Notes to Consolidated Financial Statements"). Approximately \$7.0 million related to write-off of goodwill from an acquisition prior to 1996 and the remaining \$0.8 million represented a legal settlement.

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Pro Forma Impact. Since April 1998, ALP was organized as an S-Corporation for tax purposes. Accordingly, ALP was not subject to federal income tax from April 1998 up to the date of the merger transaction. For fiscal 1999, net earnings would have been reduced by \$9.3 million if ALP had been subject to federal income taxes.

Summary. In fiscal 2001, the net effect of various special charges reduced reported net earnings by \$85.3 million to \$857.4 million and reduced reported diluted earnings per Common Share by \$0.19 per share to \$1.88 per share. In fiscal 2000, the net effect of various special charges reduced reported net earnings by \$49.8 million to \$717.8 million and reduced reported diluted earnings per Common Share by \$0.11 per share to \$1.60 per share. The net of tax effect of the various special charges recorded and pro forma adjustments related to ALP taxes during fiscal 1999 was to reduce reported net earnings by \$122.3 million to \$499.3 million and to reduce reported diluted earnings per Common Share by \$0.27 per share to \$1.12 per share.

Certain merger-related costs are based upon estimates, and actual amounts paid may ultimately differ from these estimates. If additional costs are

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incurred, such items will be expensed as incurred.

The Company estimates that it will incur additional merger-related costs associated with the various merger transactions completed to date totaling approximately \$142.3 million (\$91.6 million net of tax) in future periods. Additional discussion related to the Company's merger transactions is included in Note 2 of "Notes to Consolidated Financial Statements". The Company believes that it will incur these costs in order to properly integrate operations - a portion of which represents facility rationalizations and implementing efficiencies with regard to, among other things, information systems, customer systems, marketing programs and administrative functions. Such amounts will be charged to expense when incurred.

The Company's trend with regard to acquisitions has been to expand its role as a provider of services to the healthcare industry. This trend has resulted in expansion into service areas which (a) complement the Company's core pharmaceutical distribution business; (b) provide opportunities for the Company to develop synergies with, and thus strengthen, the acquired business; and (c) generally generate higher margins as a percentage of operating revenue than pharmaceutical distribution. As the healthcare industry continues to change, the Company continually evaluates possible candidates for merger or acquisition and intends to continue to seek opportunities to expand its role as a provider of services to the healthcare industry through all its reporting segments. There can be no assurance that it will be able to successfully pursue any such opportunity or consummate any such transaction, if pursued. If additional transactions are entered into or consummated, the Company would incur additional merger-related costs.

**INTEREST EXPENSE AND OTHER.** The increase in interest expense and other of \$16.2 million during fiscal 2001 compared to fiscal 2000 was a result of higher average levels of borrowing during the year. The increase in interest expense and other of \$5.8 million during fiscal 2000 compared to fiscal 1999 was a result of the combination of higher average interest rates on debt and higher average levels of borrowing during fiscal 2000. Additional borrowings were used to fund working capital needs as well as the Company's stock repurchase program during fiscal 2000 (see Note 9 of the "Notes to Consolidated Financial Statements").

**PROVISION FOR INCOME TAXES.** The provisions for income taxes relative to pretax earnings were 35.6% of pretax earnings in fiscal 2001 compared with 37.1% in fiscal 2000 and 39.2% for fiscal 1999. The fluctuation in the tax is primarily due to the impact of recording certain non-deductible merger-related costs during various periods as well as fluctuating state and foreign effective tax rates as a result of the Company's business mix for all three fiscal years. The provisions for income taxes excluding the impact of merger-related charges were 35.3%, 36.4%, and 37.0% for fiscal years 2001, 2000, and 1999, respectively.

### LIQUIDITY AND CAPITAL RESOURCES

Working capital increased to \$4.1 billion at June 30, 2001 from \$2.9 billion at June 30, 2000. This increase resulted from additional investments in inventories and effective asset management during fiscal 2001. Inventories increased by \$1.6 billion from year to year, which reflects the higher level of business volume in Pharmaceutical Distribution and Provider Services' activities. The timing of inventory purchases primarily accounts for the change in accounts payable of \$1.4 billion. In addition, as a result of effective asset management, the Company reduced the number of days sales outstanding in trade receivables resulting in an increase in cash and equivalents of \$394.6 million. Also, during the fiscal year, the Company repaid approximately \$350.0 million of short-term borrowings related to Bindley's securitization facility contributing to the reduction of other short-term borrowings of \$405.8 million (see further discussion in Note 4 of "Notes to Consolidated Financial Statements.")

Property and equipment, at cost, increased by \$280.4 million from June 30, 2000 to June 30, 2001. The increase was primarily due to ongoing plant expansion and manufacturing equipment purchases in certain manufacturing businesses, as well as additional investments made for management information systems and upgrades to distribution facilities. The Company has several operating lease agreements for the construction of new facilities (see further discussion in Note 8 of "Notes to Consolidated Financial Statements.")

Shareholders' equity increased to \$5.4 billion at June 30, 2001 from \$4.4 billion at June 30, 2000. The increase was primarily due to net earnings of \$857.4 million and the investment of \$370.5 million by employees of the Company through various stock incentive plans. This increase was offset by dividends paid of \$35.4 million and by an increase in treasury stock due to the settlement of the accelerated share repurchase program in the amount of \$137.4 million (see further discussion in Note 9 of "Notes to the Consolidated Financial Statements"). In February 2001, the Company issued approximately 0.8 million Common Shares and received aggregate proceeds of \$47.7million, which were used for general corporate purposes.

The Company operates a commercial paper program. At June 30, 2001, the commercial paper program provided for the issuance of up to \$1.5 billion in aggregate maturity value of commercial paper. The Company did not have any borrowings outstanding under its commercial paper program at June 30, 2001. The Company also has uncommitted short-term credit facilities with various bank sources aggregating \$121.0 million. At June 30, 2001, \$26.3 million was outstanding related to these short-term credit facilities. The Company has an unsecured bank credit facility providing for up to an aggregate of \$1.5 billion in borrowings of which \$750 million expires on March 28, 2002 and \$750 million expires on March 31, 2004. At expiration, these facilities can be extended upon mutual consent of the Company and the lending institutions. This credit facility exists largely to support issuances of commercial paper as well as other short-term borrowings and remained unused at June 30, 2001. At June 30, 2001, the borrowings under the short-term credit facility of \$26.3 million were reclassified as long-term, reflecting the Company's intent and ability, through the existence of the unused credit facility, to refinance these borrowings. The Company also has line-of-credit agreements with various bank sources aggregating \$23.1 million, of which \$8.3 million was outstanding at June 30, 2001 (see Note 4 of "Notes to Consolidated Financial Statements").

Bindley had a receivables securitization facility through which all Bindley receivables from the sale of goods or rendering of services were sold to Bindley Western Funding Corporation ("BWFC") (see Notes 1 and 4 of "Notes to Consolidated Financial Statements"). BWFC entered into a third party agreement to sell interests in receivables of up to \$350 million. During fiscal 2001, the Company repaid all outstanding borrowings and terminated this facility.

During fiscal 2001, the Company entered into an agreement to sell trade receivables to a special purpose accounts receivable and financing entity ("SPE"). The SPE exclusively engages in purchasing trade receivables from, and making loans to, the Company. The SPE, which is consolidated by the Company, issued \$400 million in preferred debt securities to parties not affiliated with the Company. Those preferred debt securities must be retired or redeemed before the Company can have access to the SPE's receivables.

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During fiscal 2001, the Company issued approximately 0.8 million Common Shares and received aggregate proceeds of \$47.7 million, which were used for general corporate purposes. In addition, the Company issued \$500 million of 6.75% Notes due 2011. The proceeds of the debt issuance were used for early redemption of Bindley debt and for repayment of a portion of the Company's commercial paper and general corporate purposes, including working capital, capital expenditures, repayment or refinancing of indebtedness, acquisitions and investments. After such issuance, the Company has the capacity to issue approximately \$1.0 billion of additional equity or debt securities pursuant to the shelf registration statements filed with the Securities and Exchange Commission.

During the fiscal quarter ended June 30, 2001, the Company filed a shelf registration statement on Form S-4 increasing the number of shares available for issuance in connection with future business combinations to 15.0 million Common Shares.

The Company currently believes that it has adequate capital resources at its disposal to fund currently anticipated capital expenditures, business growth and expansion, and current and projected debt service requirements, including those related to business combinations.

See Notes 1 and 5 of the "Notes to Consolidated Financial Statements" for information regarding the use of financial instruments and derivatives thereof, including foreign currency hedging instruments. As a matter of policy, the Company does not engage in "speculative" transactions involving derivative financial instruments.

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### OTHER

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RECENT FINANCIAL ACCOUNTING STANDARDS. In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The Company does not believe that the prospective adoption of this standard will have a material impact on its consolidated financial statements. SFAS No. 142 changes the accounting for goodwill and certain other intangible assets from an amortization method to an impairment only approach. Due to the adoption of SFAS No. 142, the Company will not amortize goodwill beginning in fiscal 2002. The goodwill amortization expense during fiscal 2001 was approximately \$48.9 million. The Company will complete its initial impairment assessment as required by SFAS No. 142 by December 31, 2001. The Company does not anticipate this assessment will result in a material write down during fiscal 2002.

In September 2000, the FASB issued the SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which is effective for any activities occurring after March 31, 2001. SFAS No. 140 replaces SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", therefore revising the disclosure for securitizations and other transfers of financial assets or collateral. Adoption of SFAS No. 140 did not have a material impact on the Company's consolidated financial statements.

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In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended in June 2000 by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which requires companies to recognize all derivatives as either assets or liabilities on the balance sheet and measure such instruments at fair value. The provisions of SFAS No. 133 were effective at the beginning of the Company's fiscal year ended June 30, 2001. Adoption of this standard in July 2000 did not have a material impact on the Company's consolidated financial statements.

On December 3, 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements" which required adoption during the fourth quarter of fiscal 2001. Adoption of SAB 101 did not have a material impact on the consolidated financial statements.

In July 2000, the Emerging Issues Task Force (EITF) reached a consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs" addressing the classification of shipping and handling revenue. The amount of revenue received for shipping and handling is immaterial for all periods presented. Additional disclosure related to the costs of shipping and handling is provided in Note 1 of "Notes to Consolidated Financial Statements".

### ITEM 7a: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Note 5 of the "Notes to Consolidated Financial Statements."

### ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Independent Auditors' Reports  
Consolidated Financial Statements and Schedule  
Consolidated Statements of Earnings for the Fiscal Years Ended June 30, 2001, 2000 and 1999  
Consolidated Balance Sheets at June 30, 2001 and 2000  
Consolidated Statements of Shareholders' Equity for the Fiscal Years Ended June 30, 2001, 2000 and 1999  
Consolidated Statements of Cash Flows for the Fiscal Years Ended June 30, 2001, 2000 and 1999  
Notes to Consolidated Financial Statements

### REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Directors of Cardinal Health, Inc.:

We have audited the accompanying consolidated balance sheets of Cardinal Health, Inc. (an Ohio corporation) and subsidiaries as of June 30, 2001 and 2000 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the two years in the period ended June 30, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the historical consolidated financial statements of Bindley Western Industries, Inc. (Bindley), a wholly



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owned subsidiary of Cardinal Health, Inc., as of December 31, 1999 and for the year then ended. The historical consolidated financial statements of Bindley represent approximately 15% of consolidated total assets at June 30, 2000, and represent total revenues and net income of approximately 22% and 5%, respectively, of consolidated amounts for the year then ended. These consolidated financial statements were audited by another auditor whose report, presented herein, and our opinion, insofar as it relates to the amounts included for Bindley, is based solely on the report of such auditor.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditor provides a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cardinal Health, Inc. and subsidiaries as of June 30, 2001 and 2000 and the consolidated results of their operations and their cash flows for each of the two years in the period ended June 30, 2001 in conformity with accounting principles generally accepted in the United States.

The consolidated financial statements of Cardinal Health, Inc. and subsidiaries for the year ended June 30, 1999, prior to restatement for pooling of interests, and the separate financial statements of Bindley for the year ended December 31, 1998 that have been included in the June 30, 1999 restated consolidated financial statements of Cardinal Health, Inc., were audited and reported on separately by other auditors and whose reports, presented herein a) dated August 10, 1999, except for the first sentence of the third paragraph of Note 2 as to which the date is May 26, 2000 and the fiscal 1999 amounts in Note 12 as to which the date is September 5, 2000 and b) dated March 21, 2000, except as to Note 3 and Note 20, which are as of December 15, 2000, respectively expressed unqualified opinions on those statements. We audited the combination of the accompanying consolidated statements of earnings, shareholders' equity and cash flows for the year ended June 30, 1999, after restatement for the fiscal 2001 pooling of interests. In our opinion, such consolidated statements have been properly combined on the basis described in Note 1 of the notes to consolidated financial statements.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP  
Columbus, Ohio,  
July 27, 2001.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Shareholders and Directors of Cardinal Health, Inc.:

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Our audit of the consolidated financial statements referred to in our report dated July 27, 2001 appearing on page 18 of this Form 10-K also included an audit of the information as of and for the two-year period ended June 30, 2001 in the Financial Statement Schedule - Valuation and Qualifying Accounts. We did not audit the historical Financial Statement Schedule of Bindley Western Industries, Inc. (Bindley), a wholly owned subsidiary of Cardinal Health, Inc., as of December 31, 1999 and for the year then ended. This Financial Statement Schedule was audited by another auditor whose report, presented herein, and our opinion, insofar as it relates to the amounts included for Bindley, is based solely on the report of such auditor.

The Financial Statement Schedule of Cardinal Health, Inc. for the year ended June 30, 1999, prior to the restatement for pooling of interests, and the separate Financial Statement Schedule of Bindley for the years ended December 31, 1998, that have been included in the June 30, 1999 restated consolidated Financial Statement Schedule, were audited and reported on separately by other auditors whose reports, presented herein a) dated August 10, 1999, except for the first sentence of the third paragraph of Note 2 as to which the date is May 26, 2000 and the fiscal 1999 amounts in Note 12 as to which the date is September 5, 2000 and b) dated March 21, 2000, except as to Note 3 and Note 20, which are as of December 15, 2000, respectively expressed unqualified opinions on that schedule. We audited the combination of the information for the year ended June 30, 1999, after restatement for the 2001 pooling of interests.

In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein as of and for the two-year period ended June 30, 2001 when read in conjunction with the related consolidated financial statements, and, in our opinion, the information for the year ended June 30, 1999, has been properly combined on the basis described in Note 1 of the Notes to Consolidated Financial Statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of valuation allowances is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements (not presented separately herein). This schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP  
Columbus, Ohio,  
July 27, 2001.

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Cardinal Health, Inc.:

## Edgar Filing: CARDINAL HEALTH INC - Form 10-K405

We have audited the consolidated statements of earnings, shareholders' equity, and cash flows of Cardinal Health, Inc. and subsidiaries for the year ended June 30, 1999. Our audit also included the consolidated financial statement schedule, as it relates to the year ended June 30, 1999, listed in the Index at Item 14. The consolidated financial statements and financial statement schedule audited by us were prior to the restatement for the 2001 pooling of interests with Bindley Western Industries Inc. ("Bindley") as described in Note 2 to the consolidated financial statements. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedule based on our audit. We did not audit the financial statements of Allegiance Corporation ("Allegiance"), a wholly owned subsidiary of Cardinal Health, Inc., for the year ended June 30, 1999. We also did not audit the financial statements of R.P. Scherer Corporation ("Scherer"), a wholly owned subsidiary of Cardinal Health, Inc., for the year ended June 30, 1999. The combined financial statements of Allegiance and Scherer represent combined revenues and net income of approximately 25% and 35% of consolidated amounts for the year ended June 30, 1999. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Allegiance and Scherer, is based solely on the reports of such other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Cardinal Health, Inc. and subsidiaries, for the year ended June 30, 1999 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, as it relates to the year ended June 30, 1999, when considered in relation to the basic fiscal 1999 consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Columbus, Ohio

August 10, 1999, except for the first sentence of the third paragraph of Note 2 as to which the date is May 26, 2000 and the fiscal 1999 amounts in Note 12 as to which the date is September 5, 2000.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS  
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To R.P. Scherer Corporation:

We have audited the consolidated statements of income, comprehensive income, cash flows and shareholders' equity for the year ended June 30, 1999 (not presented separately herein) of R.P. SCHERER CORPORATION (a Delaware corporation and a wholly-owned subsidiary of Cardinal Health, Inc.) and subsidiaries. These financial statements and the schedule referred to below are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of R.P. Scherer Corporation's and subsidiaries operations and their cash flows for the year ended June 30, 1999, in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of valuation allowances is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements (not presented separately herein). This schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/Arthur Andersen LLP

ARTHUR ANDERSEN LLP  
Roseland, New Jersey,  
August 9, 1999.

REPORT OF INDEPENDENT ACCOUNTANTS  
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To the Stockholders of Allegiance Corporation

In our opinion, the consolidated statements of operations, of cash flows and of equity of Allegiance Corporation and its subsidiaries (not presented separately herein) present fairly, in all material respects, the results of their operations and their cash flows for the year ended June 30, 1999 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Allegiance Corporation's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Allegiance Corporation for any period subsequent to June 30, 1999.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Chicago, Illinois  
July 29, 1999

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE  
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To the Stockholders of Allegiance Corporation

Our audit of the consolidated financial statements of Allegiance Corporation and its subsidiaries referred to in our report dated July 29, 1999 appearing in the

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Cardinal Health, Inc. Annual Report on Form 10-K for the year ended June 30, 2001 also included an audit of the Financial Statement Schedule II - Valuation and Qualifying Accounts ("financial statement schedule") of Allegiance Corporation and its subsidiaries for the year ended June 30, 1999 (not presented separately herein). In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. We have not audited the consolidated financial statements and financial statement schedule of Allegiance Corporation for any period subsequent to June 30, 1999.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Chicago, Illinois  
July 29, 1999

### REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders  
of Bindley Western Industries, Inc.:

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In our opinion, the consolidated balance sheet as of December 31, 1999 and the related consolidated statements of earnings, of shareholders' equity and of cash flows for each of the two years in the period ended December 31, 1999 of Bindley Western Industries, Inc. and its subsidiaries (the "Company") (not presented separately herein) present fairly, in all material respects, their financial position, results of operations and cash flows at December 31, 1999, and for each of the two years in the period ended December 31, 1999, prior to adjustments related to the 2001 pooling of interests with Cardinal Health, Inc., in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Bindley Western Industries, Inc. for any period subsequent to December 31, 1999.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Indianapolis, Indiana  
March 21, 2000, except as to Note 3 and Note 20, which are  
as of December 15, 2000

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders  
of Bindley Western Industries, Inc.:

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Our audits of the consolidated financial statements referred to in our report dated March 21, 2000, except as to Note 3 and Note 20, which are as of December 15, 2000, appearing in the Cardinal Health, Inc. Annual Report on Form 10-K for the year ended June 30, 2001 also included an audit of the Financial Statement Schedule II - Valuation and Qualifying Accounts ("financial statement schedule") of Bindley Western Industries, Inc. and its subsidiaries for the year ended December 31, 1999 (not presented separately herein). In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. We have not audited the consolidated financial statements and financial statement schedule of Bindley Western Industries, Inc. for any period subsequent to December 31, 1999.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
 Indianapolis, Indiana  
 March 21, 2000, except as to Note 3 and Note 20,  
 which are as of December 15, 2000

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CARDINAL HEALTH, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF EARNINGS  
 (In millions, except per share amounts)

	FISCAL YEAR ENDED JUNE 30		
	2001	2000	
Revenue:			
Operating revenue	\$ 38,660.1	\$ 30,257.8	\$
Bulk deliveries to customer warehouses	9,287.5	8,092.1	
	-----	-----	-----



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Total revenue	47,947.6	38,349.9	
Cost of products sold:			
Operating cost of products sold	35,050.2	27,163.8	
Cost of products sold - bulk deliveries	9,285.8	8,089.9	
Special charges	--	--	
	-----	-----	
Total cost of products sold	44,336.0	35,253.7	
	-----	-----	
Gross margin	3,611.6	3,096.2	
Selling, general and administrative expenses	1,999.6	1,751.0	
Special charges	124.9	64.7	
	-----	-----	
Operating earnings	1,487.1	1,280.5	
Interest expense and other	154.9	138.7	
	-----	-----	
Earnings before income tax	1,332.2	1,141.8	
Provision for income taxes	474.8	424.0	
	-----	-----	
Net earnings	\$ 857.4	\$ 717.8	\$
	=====	=====	=====
Net earnings per Common Share:			
Basic	\$ 1.93	\$ 1.64	\$
Diluted	\$ 1.88	\$ 1.60	\$
Weighted average number of Common Shares outstanding:			
Basic	443.2	438.8	
Diluted	455.5	448.7	
	-----	-----	
Net earnings	\$ 857.4	\$ 717.8	\$
Pro forma adjustment for income taxes (See Note 2)	--	--	
	-----	-----	
Pro forma net earnings	\$ 857.4	\$ 717.8	\$
	=====	=====	=====
Pro forma net earnings per Common Share:			
Basic	\$ 1.93	\$ 1.64	\$
Diluted	\$ 1.88	\$ 1.60	\$

The accompanying notes are an integral part of these consolidated statements.

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CARDINAL HEALTH, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(IN MILLIONS)

JUNE 30,  
2001

ASSETS

Current assets:

Cash and equivalents	\$ 934.1
Trade receivables, net	2,408.7
Current portion of net investment in sales-type leases	236.3
Inventories	6,286.1
Prepaid expenses and other	851.1

-----

Total current assets	10,716.3
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Property and equipment, at cost:

Land, buildings and improvements	978.0
Machinery and equipment	2,167.5
Furniture and fixtures	200.4

-----

Total	3,345.9
-------	---------

Accumulated depreciation and amortization	(1,507.6)
---	-----------

-----

Property and equipment, net	1,838.3
-----------------------------	---------

Other assets:

Net investment in sales-type leases, less current portion	671.7
Goodwill and other intangibles, net	1,175.4
Other	240.7

-----

Total	\$ 14,642.4
-------	-------------

=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Notes payable & other short term borrowings	\$ 8.3
Current portion of long-term obligations	5.9
Accounts payable	5,319.9
Other accrued liabilities	1,240.7

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Total current liabilities	6,574.8
---------------------------	---------

-----

Long-term obligations, less current portion	1,871.0
---	---------

Deferred income taxes and other liabilities	759.5
---	-------

Shareholders' equity:

Common Shares, without par value	1,893.1
Retained earnings	4,146.0
Common Shares in treasury, at cost	(457.2)
Other comprehensive income	(140.3)

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Other	(4.5)
	-----
Total shareholders' equity	5,437.1
	-----
Total	\$ 14,642.4
	=====

The accompanying notes are an integral part of these consolidated statements.

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CARDINAL HEALTH, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(IN MILLIONS)

	COMMON SHARES		RETAINED EARNINGS
	SHARES ISSUED	AMOUNT	
	-----	-----	-----
BALANCE, JUNE 30, 1998	183.0	\$1,266.7	\$2,246.0
Comprehensive income:			
Net earnings			499.3
Foreign currency translation adjustments			
Total comprehensive income			
Employee stock plans activity,			
including tax benefits of \$65.4 million	3.4	139.6	
Treasury shares acquired and shares retired	(1.9)	(73.8)	(2.9)
Dividends paid			(49.1)
Stock split effected as a stock dividend and cash paid in lieu of fractional shares	105.6		(0.3)
Adjustment for change in fiscal year of an acquired subsidiary (see Note 1)	0.1	0.5	8.6
Stock issued for acquisitions and other	0.2	(0.1)	(1.0)
Distribution of Priority Healthcare Corporation		(24.4)	(34.5)
	-----	-----	-----
BALANCE, JUNE 30, 1999	290.4	\$1,308.5	\$2,666.1
Comprehensive income:			
Net earnings			717.8
Foreign currency translation adjustments			
Total comprehensive income			
Employee stock plans activity,			
including tax benefits of \$46.9 million	4.4	147.8	
Treasury shares acquired			(22.2)

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Dividends paid			(30.0)
Stock issued for acquisitions and other	4.6	53.3	(0.1)
	-----	-----	-----
BALANCE, JUNE 30, 2000	299.4	\$1,509.6	\$3,331.6
Comprehensive income:			
Net earnings			857.4
Foreign currency translation adjustments			
Unrealized loss on derivatives			
Unrealized loss on investment			
Total comprehensive income			
Employee stock plans activity,			
including tax benefits of \$159.2 million	7.2	332.7	
Treasury shares acquired			
Dividends paid			(35.4)
Stock split effected as a stock dividend and			
cash paid in lieu of fractional shares	148.5	(1.2)	
Adjustment for change in fiscal year			
of an acquired subsidiary (see Note 1)	0.3	4.5	(4.1)
Stock issued for acquisitions and other	0.8	47.5	(3.5)
	-----	-----	-----
BALANCE, JUNE 30, 2001	456.2	\$1,893.1	\$4,146.0
	=====	=====	=====

	OTHER	TOTAL SHAREHOLDERS' EQUITY
	-----	-----
BALANCE, JUNE 30, 1998	\$ (8.7)	\$3,389.9
Comprehensive income:		
Net earnings		499.3
Foreign currency translation adjustments		(17.0)
		-----
Total comprehensive income		482.3
Employee stock plans activity,		
including tax benefits of \$65.4 million	(2.9)	171.5
Treasury shares acquired and shares retired	3.5	(49.7)
Dividends paid		(49.1)
Stock split effected as a stock dividend and		
cash paid in lieu of fractional shares		(0.3)
Adjustment for change in fiscal year		
of an acquired subsidiary (see Note 1)		10.0
Stock issued for acquisitions and other		(1.1)
Distribution of Priority Healthcare Corporation		(58.9)
	-----	-----
BALANCE, JUNE 30, 1999	\$ (8.1)	\$3,894.6
Comprehensive income:		
Net earnings		717.8
Foreign currency translation adjustments		(37.9)
		-----
Total comprehensive income		679.9
Employee stock plans activity,		
including tax benefits of \$46.9 million	(4.2)	143.4
Treasury shares acquired		(340.7)

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Dividends paid		(30.0)
Stock issued for acquisitions and other		53.2
	-----	-----
BALANCE, JUNE 30, 2000	\$ (12.3)	\$4,400.4
Comprehensive income:		
Net earnings		857.4
Foreign currency translation adjustments		(46.4)
Unrealized loss on derivatives		(6.7)
Unrealized loss on investment		(5.3)
		-----
Total comprehensive income		799.0
Employee stock plans activity,		
including tax benefits of \$159.2 million	4.7	365.5
Treasury shares acquired		(139.0)
Dividends paid		(35.4)
Stock split effected as a stock dividend and		
cash paid in lieu of fractional shares		(1.2)
Adjustment for change in fiscal year		
of an acquired subsidiary (see Note 1)	(0.1)	0.6
Stock issued for acquisitions and other	3.2	47.2
	-----	-----
BALANCE, JUNE 30, 2001	\$ (4.5)	\$5,437.1
	=====	=====

The accompanying notes are an integral part of these consolidated statements.

CARDINAL HEALTH INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN MILLIONS)

CASH FLOWS FROM OPERATING ACTIVITIES:

	-----
	2001
	-----
Net earnings	\$ 857
Adjustments to reconcile net earnings to net cash from operating activities:	
Depreciation and amortization	280
Provision for deferred income taxes	149
Provision for bad debts	41
Change in operating assets and liabilities, net of effects from acquisitions:	
Increase in trade receivables	(31)
Increase in inventories	(1,517)

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Increase in net investment in sales-type leases	(141)
Increase in accounts payable	1,313
Other operating items, net	(79)
	-----
Net cash provided by operating activities	871
	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition/divestiture of subsidiaries, net of cash acquired	(364)
Proceeds from sale of property and equipment	72
Additions to property and equipment	(341)
Purchase of marketable securities available for sale	--
Proceeds from sale of marketable securities available for sale	--
	-----
Net cash used in investing activities	(633)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net change in commercial paper and short-term debt	(824)
Reduction of long-term obligations	(53)
Proceeds from long-term obligations, net of issuance costs	911
Proceeds from securitized borrowings	--
Proceeds from issuance of Common Shares	252
Dividends on common shares, minority interests and cash paid in lieu of fractional shares	(36)
Purchase of treasury shares	(139)
Other	--
	-----
Net cash provided by/(used in) financing activities	108
	-----
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	347
CHANGE IN FISCAL YEAR (SEE NOTE 1)	47
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	539
	-----
CASH AND EQUIVALENTS AT END OF YEAR	\$ 934
	=====

The accompanying notes are an integral part of these consolidated statements.

CARDINAL HEALTH, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cardinal Health, Inc., together with its subsidiaries (collectively the "Company"), is a provider of services to the healthcare industry offering an array of value-added pharmaceutical and other healthcare products distribution

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services and pharmaceutical-related products and services to a broad base of customers. The Company currently conducts its business within four business segments: Pharmaceutical Distribution and Provider Services; Medical-Surgical Products and Services; Pharmaceutical Technologies and Services; and Automation and Information Services. See Note 12 for information related to the Company's operating segments.

**BASIS OF PRESENTATION.** The consolidated financial statements of the Company include the accounts of all majority-owned subsidiaries and all significant intercompany accounts and transactions have been eliminated. In addition, the consolidated financial statements give retroactive effect to the merger transactions with R.P. Scherer Corporation ("Scherer") on August 7, 1998; Allegiance Corporation ("Allegiance") on February 3, 1999; Pacific Surgical Innovations, Inc. ("PSI") on May 21, 1999; Automatic Liquid Packaging, Inc. ("ALP") on September 10, 1999 and Bindley Western Industries, Inc. ("Bindley") on February 14, 2001 (see Note 2). Such business combinations were accounted for under the pooling-of-interests method.

Scherer's fiscal year end was March 31. In order to conform with the Company's June 30 fiscal year end, Scherer's results of operations for the three months ended June 30, 1998 are not included in the combined results of operations but are reflected as an adjustment in the Consolidated Statements of Shareholders' Equity. Scherer's net revenue and net earnings for this period were \$161.6 million and \$8.6 million, respectively. Scherer's cash flows from operating and financing activities for this period were \$12.6 million and \$32.6 million, respectively, while cash flows used in investing activities were \$12.2 million.

The Company's fiscal year end is June 30 and Bindley's fiscal year end was December 31. For the fiscal years ended June 30, 1999 and 2000, the consolidated financial statements combine the Company's fiscal years ended June 30, 1999 and 2000, with Bindley's fiscal years ended December 31, 1998 and 1999, respectively.

As a result of changing Bindley's fiscal year end from December 31 to June 30, Bindley's results of operations for the six months ended June 30, 2000 are not included in the combined results of operations but are reflected as an adjustment in the Consolidated Statements of Shareholders' Equity. Bindley's net revenue and net earnings excluding special charges were \$4.9 billion and \$22.9 million, respectively. Including special charges for the same period, Bindley's net loss was \$2.8 million. Cash flows from operating activities were \$166.7 million, while cash flows used in investing and financing activities were \$5.7 million and \$113.4 million, respectively.

During fiscal 2001, 2000 and 1999, the Company completed several acquisitions, which were accounted for under the purchase method of accounting. The consolidated financial statements include the results of operations from each of these business combinations as of the date of acquisition. Additional disclosure related to the Company's acquisitions is provided in Note 2.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts may differ from these estimated amounts.

**CASH EQUIVALENTS.** The Company considers all liquid investments purchased with a maturity of three months or less to be cash equivalents. The carrying value of these cash equivalents approximates their fair value. Cash payments for interest were \$144.8 million, \$133.8 million, and \$125.1 million and cash payments for income taxes were \$213.6 million, \$125.5 million and \$94.9 million for fiscal 2001, 2000, and 1999, respectively. See Notes 2 and 4 for additional information

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regarding non-cash investing and financing activities.

RECEIVABLES. Trade receivables are primarily comprised of amounts owed to the Company through its pharmaceutical and other healthcare distribution activities and are presented net of an allowance for doubtful accounts of \$106.8 million and \$71.1 million at June 30, 2001 and 2000, respectively.

The Company provides financing to various customers. Such financing arrangements range from one year to ten years, at interest rates that generally fluctuate with the prime rate. The financings may be collateralized, guaranteed by third parties or unsecured. Finance notes and accrued interest receivable are \$27.8 million and \$24.0 million at June 30, 2001 and 2000, respectively (the current por